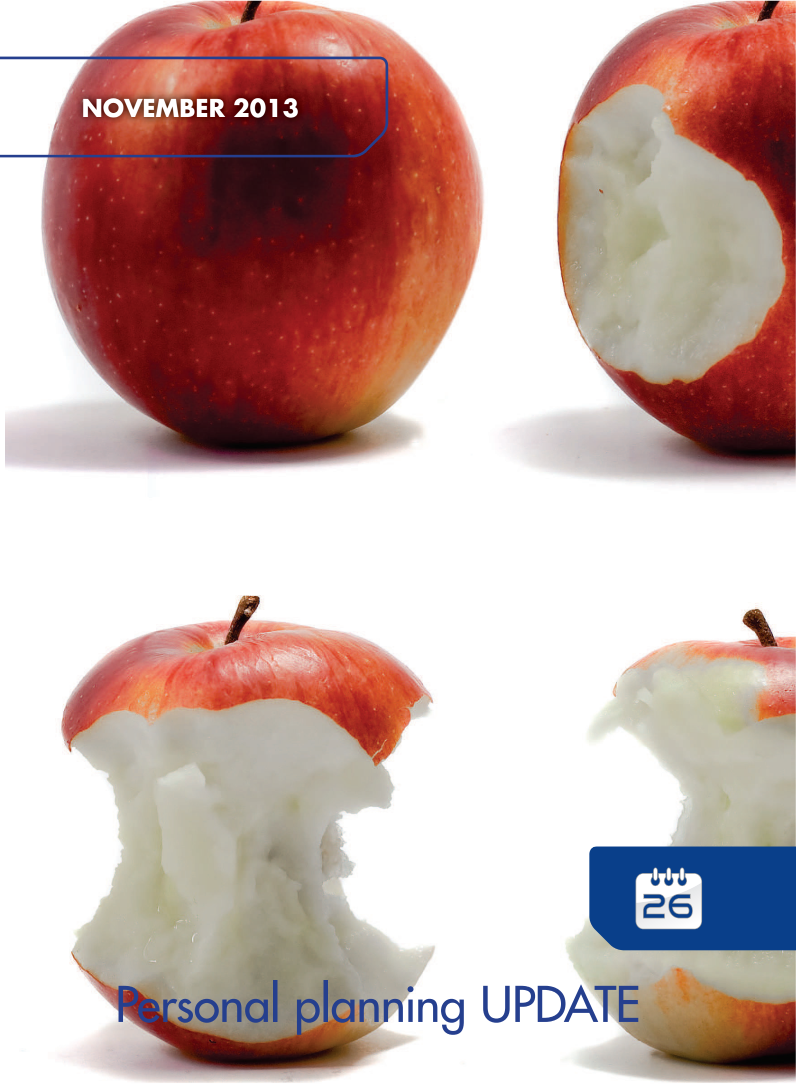

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# Reducing personal tax liability

This guide is intended to help you with your 2013/14 financial and tax planning

Personal planning UPDATE

Nobody wants to pay more tax than is necessary and good tax planning is an essential component of personal financial planning. Everyone's situation is different and tax rates, allowances and legislation change every year. Here are some of the key personal tax issues to consider for this tax year.

## Income and savings

Each member of your family is taxed as an individual and is entitled to his or her own allowances and exemptions depending on their income.

For 2013/14:

| Income | Earnings, etc (%) | Savings (%) | UK Dividends (%) |
|---|---|---|---|
| First £9,440* | Tax-free | Tax-free | 10 |
| Next £2,790 | 20 | 10/20** | 10 |
| Next £29,220 | 20 | 20 | 10 |
| Next £117,990*** | 40 | 40 | 32.50 |
| Above £150,000 | 45 | 45 | 37.50 |

* The personal allowance is withdrawn by £1 for every £2 by which total income exceeds £100,000.

** The first £2,790 of savings income is taxed at 10 per cent provided taxable non-savings income does not exceed £2,790.

*** Where income exceeds £100,000 the personal allowance is withdrawn and so up to an additional £9,440 can be at a tax rate of up to 40 per cent. In this instance, you should ignore the £9,440 income line in calculating your cumulative position on the table.

Allowances and rate bands are allocated first to your earned income (which includes pensions), then to your savings income, then to any UK dividend income.

If you have a partner, spouse or child who pays a lower rate of tax than you do, consider allowing them to hold some or all of the savings in their name. While any interest in excess of £100 on money given to children by parents will be treated as the parents' income, interest on money from grandparents may be set against the child's personal allowance.

## Child benefit tax charge

The high-income child benefit income tax charge applies where child benefit is being claimed and at least one parent or guardian earns £50,000 or more. The charge equals one per cent of the total child benefit for each £100 earned over this limit. If you or your partner earns £60,000 or more per year, the tax charge will be equal to the child benefit you receive. In other words, the benefit is removed completely.

## Tax-efficient investments

There are several tax-free vehicles in which savings can be easily made. These include individual savings accounts (ISAs), for which the 2013/14 tax-free contribution allowance is £11,520 for all adults, and some National Savings products. Tax-advantageous investment vehicles include the Self Invested Personal Pension, which grants a wide

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# Reducing your personal tax liability

degree of investor choice at the expense of accessibility. Three other forms of tax efficient investments are available for those willing to invest where there is a higher element of risk:

- the Enterprise Investment Scheme (EIS)
- Venture Capital Trusts (VCTs)
- the Seed Enterprise Investment Scheme (SEIS).

## Dividends and equity

Dividends from most companies - including foreign dividends - attract a non-repayable tax credit equal to one ninth of the dividend. If you are planning to sell shares it may be possible to make a partial sale straddling the tax year, thereby utilising capital gains tax (CGT) annual allowances each year (provided these allowance have not otherwise been used). If you make losses on your shares, it is also possible to carry this loss forward to offset against future capital gains.

## Rental property

Rental property loan interest is an allowable deduction from rental income. Landlords of residential properties may claim an annual 10 per cent wear and tear allowance if the property is fully furnished. If you are letting a holiday property in the UK or elsewhere in the European Economic Area and meet certain qualifying conditions, you can claim capital allowances rather than the 10 per cent allowance.

If your rental income relates to letting out a room in your own home, you are entitled to receive £4,250 per year tax free.

Higher rate or additional rate tax-paying landlords could transfer rented property or a proportion of it into their spouse's name, which may also produce a CGT benefit.

## Capital gains

Tax-free capital gains of up to £10,900 are available for each individual. Above this amount, CGT is charged at 18 per cent or 28 per cent depending on your total taxable income, or 10 per cent if you qualify for Entrepreneurs' Relief.

## Charitable donations

There are a number of ways in which it is possible to gift cash or assets to charity tax-efficiently. Under Gift Aid, a higher rate taxpayer can give a charity £100 at a net cost of as little as £60. Charitable donations can also be included in your Will, and again they will attract tax relief. If you choose to leave 10 per cent or more of your estate to charity when you die, the rate of IHT can be reduced from 40 per cent to 36 per cent.

## All year round tax planning checklist

You should not leave tax planning until the final months of the tax or financial year. Opportunities can be lost, or tax savings reduced, if action is delayed. Take a few moments to complete this checklist and contact us now to discuss the planning opportunities arising from any 'No' responses:

| | | Yes | No |
|---|---|---|---|
| 1. | Are you satisfied that your liability to income tax and capital gains tax for this year will be as little as possible? | ☐ | ☐ |
| 2. | Are you claiming all your allowances and deductions for income tax? | ☐ | ☐ |
| 3. | Are you maximising your contributions to pension schemes? | ☐ | ☐ |
| 4. | In determining where to invest your family funds, will you seek to take advantage of tax-efficient investments such as ISAs, VCTs, EIS or SEIS? | ☐ | ☐ |
| 5. | If you are a share-holding employee in a limited company, have you considered whether there is a tax advantage in receiving dividends instead of salary/bonus? | ☐ | ☐ |
| 6. | Are your payments to charity attracting the higher rate (20 per cent) or additional rate (25 per cent) tax relief available by claiming gift aid? | ☐ | ☐ |
| 7. | Have you considered giving up your company car and instead claiming at the official mileage rate for business use of your own car? | ☐ | ☐ |
| 8. | Would you consider the use of trusts in your tax planning? | ☐ | ☐ |
| 9. | If you are in a position to influence your total remuneration package, have you sought tax-efficient benefits? | ☐ | ☐ |
| 10. | Have you reviewed your Will and explored opportunities for reducing your liability to inheritance tax? | ☐ | ☐ |

Here's where we can advise:

- Understanding your tax allowances and rates
- Making the most of tax free opportunities
- Keeping tax rates as low as possible across the family
- Using savings, capital and the Junior ISA to give your children a better start in life
- Making a Will
- Making a living Will and giving someone you trust an enduring power of attorney
- Insuring your life and obtaining disability and critical illness insurance
- Saving for income and investing for capital growth.

Contact one of our expert advisers for advice on personal tax planning.